

**FRUIT HEIGHTS CITY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA**

JUNE 30, 2006

FRUIT HEIGHTS CITY
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Fruit Heights City
Fruit Heights, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Fruit Heights City, Utah as of and for the year ended June 30, 2006, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 and budgetary comparison information on pages 34 through 36 are not a required part of the financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fruit Heights City's basic financial statements. The schedule of impact fees described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Davis, Chase & Associates

December 15, 2006

FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2006

INTRODUCTION

The following is a discussion and analysis of Fruit Heights City's financial performance and activities for the fiscal year ending June 30, 2006.

HIGHLIGHTS

Through the efforts of volunteers and the financial contribution of individuals and the City, a new playground called Castle Heights was completed at Nicholls Park. Water line projects were started on East Oaks and Green Road. New storm drain projects were started on Green Road and Country Road. The City continued its ongoing project of changing City manual water meters to radio signal meters making meter reading faster, more efficient and more accurate. The City's sewer lines were all transferred to Central Davis Sewer District effective January 1, 2006.

The assets of Fruit Heights City exceeded its liabilities at the end of the current fiscal year by \$11,348,496 (net assets). Of this amount, \$2,051,283 (unrestricted net assets) is available to meet ongoing obligations to citizens and creditors.

Total net assets increased by \$1,931,898. Governmental activities increased by \$2,742,581 and business-type activities decreased by \$810,683.

The City's governmental funds reported combined ending fund balance of \$1,252,462, an increase of \$886,598 compared to the prior years' ending amount. Of the combined total fund balance, \$1,052,454, \$462,496 in the General Fund and \$589,958 in the Capital Projects Fund, is available for spending at the discretion of the City (unreserved and undesignated fund balance).

The unreserved and undesignated fund balance of the General Fund at June 30, 2005, totaling \$462,496, is 28.9% of the General Fund total revenues for the year and 43.9% of governmental unreserved and undesignated fund balance. The General Fund, also has \$157,633 of fund balance reserved for specific purposes that will be carried over into the following fiscal year. The Capital Projects Fund has \$42,375 of fund balance reserved for specific purposes that will be carried over into the following year.

During the year, total debt for Fruit Heights City increased by approximately \$36,166.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City's Basic Financial Statements. The Basic Financial Statements includes three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Management's Discussion and Analysis

The government-wide financial statements are comprised of the Statement of Net Assets, and the Statement of Activities. These two statements provide a broad overview of the City's finances. The Statement of Net Assets shows the overall net assets of the City. Increases and decreases in net assets are one indicator of the City's overall financial condition. The Statement of Activities helps to identify functions of the City that are principally supported by taxes and other general revenues (governmental activities) along with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Fruit Heights City's business type activities are sewer, water, solid waste and storm water.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds are divided into two types. The two types are Governmental Funds and Proprietary Funds.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fruit Heights City has two Governmental Funds. The General Fund is the chief operating fund of the City. All of the City's activities are reported in the General Fund unless there is a compelling reason to report an activity in some other fund type. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fruit Heights City has four Proprietary Funds. The Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services. The Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Fruit Heights City has four Enterprise Funds, the water fund, the sewer fund, the solid waste fund and the storm water fund. An internal service fund is presented in a separate column in the Proprietary Fund financial statements. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

There are several differences between Government-Wide and Fund Statements. Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements, but are expenditures on the governmental fund statements.

Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

	Government Activities		Business-type Activities		Total	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Current and other assets	\$2,054,320	\$1,083,261	\$1,384,339	\$1,486,034	\$ 3,438,659	\$2,569,295
Capital assets	3,750,878	1,995,481	5,259,911	5,502,338	9,010,789	7,497,819
Total assets	<u>5,805,198</u>	<u>3,078,742</u>	<u>6,644,250</u>	<u>6,988,372</u>	<u>12,449,448</u>	<u>10,067,114</u>
Long-term liabilities						
outstanding	60,890	64,117	270,000	285,000	330,890	349,117
Other liabilities	180,211	193,109	589,851	108,290	770,062	301,399
Total liabilities	<u>241,101</u>	<u>257,226</u>	<u>859,851</u>	<u>393,290</u>	<u>1,100,952</u>	<u>650,516</u>
Net assets:						
Invested in capital assets,						
net of related debt	3,750,878	1,995,480	4,974,911	5,183,905	8,725,789	7,179,385
Restricted	200,008	190,702	371,416	422,899	571,424	613,601
Unrestricted	1,613,211	635,334	438,072	988,278	2,051,283	1,623,612
Total net assets	<u>\$5,564,097</u>	<u>\$2,821,516</u>	<u>\$5,784,399</u>	<u>\$6,595,082</u>	<u>\$ 11,348,496</u>	<u>\$9,416,598</u>

The largest component of the City's net assets, 76.9%, reflects investments in capital assets (land, buildings, equipment, and infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Restricted net assets comprise 5.0% of total net assets and are subject to external restrictions on how they may be used. The remaining 18.1% of net assets is unrestricted and may be used at the City's discretion to meet its ongoing obligations to citizens and creditors.

Management's Discussion and Analysis

Governmental Activities and Business Type Activities

Changes in Net Assets

	Government Activities		Business-type Activities		Total	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Revenues:						
Program revenues:						
Charges for services	\$ 579,828	\$ 409,774	\$1,322,519	\$1,522,939	\$ 1,902,347	\$1,932,713
Operating grants and contributions	169,071	151,475	-	-	169,071	151,475
Capital grants and contributions	24,476	85,691	30,000	2,297,523	54,476	2,383,214
General revenues:						
Property taxes	387,383	307,659	-	-	387,383	307,659
Other taxes	485,287	443,679	-	-	485,287	443,679
Grants and contributions not restricted to specific programs						
Other	2,424,267	18,878	(1,041,539)	23,819	1,382,728	42,697
Total revenues	4,070,312	1,417,156	310,980	3,844,281	4,381,292	5,261,437
Expenses:						
General government	614,973	571,751	-	-	614,973	571,751
Public safety	286,768	324,580	-	-	286,768	324,580
Highways and public improvements	286,971	310,982	-	-	286,971	310,982
Parks and recreation	139,019	144,390	-	-	139,019	144,390
Solid waste	-	-	286,990	262,288	286,990	262,288
Storm sewer	-	-	124,150	56,425	124,150	56,425
Water	-	-	409,625	367,147	409,625	367,147
Sewer	-	-	300,898	333,541	300,898	333,541
Total expenses	1,327,731	1,351,703	1,121,663	1,019,401	2,449,394	2,371,104
Increase in net assets	2,742,581	65,453	(810,683)	2,824,880	1,931,898	2,890,333
Net assets-beginning	2,821,516	2,756,063	6,595,082	3,770,202	9,416,598	6,526,265
Net assets-ending	<u>\$5,564,097</u>	<u>\$2,821,516</u>	<u>\$5,784,399</u>	<u>\$6,595,082</u>	<u>\$ 11,348,496</u>	<u>\$9,416,598</u>

Governmental Activities

The activities in the governmental funds resulted in an increase in net assets of \$2,742,581 for the year.

Business-Type Activities

The business-type activities decreased net assets by \$810,683. The sewer, water and storm water enterprise funds are generating sufficient revenue to cover operating costs. The solid waste enterprise fund did not generate sufficient revenue to cover operating costs. The majority of the decrease was a result of transferring all sewer lines to Central Davis Sewer District.

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Fund Balances

The fund balance in the General Fund was increased by \$284,673. The fund balance in the Capital Projects Fund increased by \$601,925. The net assets in the Enterprise Funds decreased by \$810,683.

Capital Assets

Fruit Heights City added \$1,865,116 in new capital assets in governmental activities during the fiscal year. The following assets were acquired or constructed: Castle Heights playground \$107,471; Infrastructure \$1,757,645.

Long-Term Debt

The City currently owes \$285,000 for a municipal revenue obligation in the form of a promissory note. The proceeds from the note were used to finance the City's construction of a secondary water system for a portion of the City. \$15,000 of the debt will be paid in the current year with \$270,000 remaining in long-term debt. Special assessment collections will be used to pay this obligation.

General Fund Budgets

Fruit Heights City prepares its budget according to state statutes. The General Fund Budget was adjusted during the year.

Actual General Fund revenues were \$238,097 above the original budget and \$228,097 above the final adjusted budget. Actual General Fund expenses before transfers were \$237,119 below the original budget and \$259,119 below the final adjusted budget.

ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Fruit Heights City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the City's finances should be addressed to Fruit Heights City, 910 South Mountain Road, Fruit Heights City, Utah 84037.

FRUIT HEIGHTS CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,323,956	\$ 591,913	\$ 1,915,869
Restricted cash	200,008	371,416	571,424
Restricted cash - subdivider guarantee deposits	55,742	-	55,742
Accounts receivable	7,043	224,024	231,067
Special assessments receivable	-	139,154	139,154
Due from other governmental units	487,575	-	487,575
Internal balances	(20,004)	20,004	-
Prepaid expenses	-	37,828	37,828
Capital assets (net of accumulated depreciation):			
Land	855,498	98,783	954,281
Work in progress	-	480,806	480,806
Buildings	641,323	-	641,323
Improvements	2,065,360	4,632,846	6,698,206
Machinery and equipment	187,709	31,361	219,070
Water rights	988	16,115	17,103
TOTAL ASSETS	5,805,198	6,644,250	12,449,448
LIABILITIES			
Accounts payable	45,829	426,197	472,026
Retainage payable	-	30,400	30,400
Deposits	78,640	-	78,640
Subdivider guarantee deposits	55,742	118,254	173,996
Non-current liabilities:			
Due within one year	-	15,000	15,000
Due in more than one year	60,890	270,000	330,890
TOTAL LIABILITIES	241,101	859,851	1,100,952
NET ASSETS			
Invested in capital assets, net of related debt	3,750,878	4,974,911	8,725,789
Restricted for:			
Class "C" roads	149,389	-	149,389
Parks impact fees	42,375	-	42,375
Emergency preparedness	8,244	-	8,244
Impact fees	-	103,764	103,764
Special assessment	-	267,652	267,652
Unrestricted	1,613,211	438,072	2,051,283
TOTAL NET ASSETS	\$ 5,564,097	\$ 5,784,399	\$ 11,348,496

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Net (Expense) Revenue and Changes in Net Assets

FUNCTIONS/PROGRAMS PRIMARY GOVERNMENT:	Program Revenues				Primary Government		
	Charges for		Operating	Capital	Governmental Activities	Business-type Activities	Total
	Expenses	Services	Contributions	Grants and Contributions			
Governmental activities:							
General government	\$ 614,973	\$ 497,262	\$ 14,381	\$ -	\$ (103,330)	\$ -	\$ (103,330)
Public safety	286,768	73,500	2,776	-	(210,492)	-	(210,492)
Highways and public improvements	286,971	-	151,914	-	(135,057)	-	(135,057)
Parks and recreation	139,019	9,066	-	24,476	(105,477)	-	(105,477)
Total governmental activities	1,327,731	579,828	169,071	24,476	(554,356)	-	(554,356)
Business-type activities:							
Water	409,625	503,014	-	-	-	93,389	93,389
Sewer	300,898	409,797	-	-	-	108,899	108,899
Solid waste	286,990	263,012	-	-	-	(23,978)	(23,978)
Storm water	124,150	146,696	-	30,000	-	52,546	52,546
Total business-type activities	1,121,663	1,322,519	-	30,000	-	230,856	230,856
Total primary government	\$ 2,449,394	\$ 1,902,347	\$ 169,071	\$ 54,476	(554,356)	230,856	(323,500)
General revenues:							
Property taxes					387,383	-	387,383
Sales taxes					424,313	-	424,313
Fees-in-lieu of taxes					60,974	-	60,974
Miscellaneous					34,598	66,678	101,276
Donation of capital assets					1,757,645	834,201	2,591,846
Gain (loss) on sale of assets					218,657	(1,529,051)	(1,310,394)
Transfers					413,367	(413,367)	-
Total general revenues and transfers					3,296,937	(1,041,539)	2,255,398
Change in net assets					2,742,581	(810,683)	1,931,898
Net assets - beginning					2,821,516	6,595,082	9,416,598
Net assets - ending					\$ 5,564,097	\$ 5,784,399	\$ 11,348,496

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 442,806	\$ 594,575	\$ 1,037,381
Restricted cash	157,633	42,375	200,008
Restricted cash - subdivider guarantee deposits	55,742	-	55,742
Accounts receivable	7,043	-	7,043
Due from other governmental units	487,575	-	487,575
Total assets	<u>\$1,150,799</u>	<u>\$ 636,950</u>	<u>\$ 1,787,749</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 41,121	\$ 4,617	\$ 45,738
Customer deposits	78,640	-	78,640
Subdivider guarantee deposits	55,742	-	55,742
Deferred revenues	355,167	-	355,167
Total liabilities	<u>530,670</u>	<u>4,617</u>	<u>535,287</u>
Fund balances:			
Reserved for:			
Class "C" Roads	149,389	-	149,389
Park impact fees	-	42,375	42,375
Emergency preparedness	8,244	-	8,244
Unreserved, reported in:			
Capital projects fund	-	589,958	589,958
General fund	462,496	-	462,496
Total fund balances	<u>620,129</u>	<u>632,333</u>	<u>1,252,462</u>
Total liabilities and fund balances	<u>\$1,150,799</u>	<u>\$ 636,950</u>	<u>\$ 1,787,749</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds:		\$ 1,252,462
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$ 855,498	
Water rights	988	
Buildings	884,267	
Improvements	2,193,493	
Machinery and equipment	87,273	
Accumulated depreciation	<u>(413,188)</u>	
		3,608,331
Internal service funds are used by management to charge the costs of the vehicle and equipment fund to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.		409,027
Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds, but they are reported in the Statement of Net Assets.		
Compensated absences		(60,890)
Earned and unavailable revenue is shown as a liability until available in the funds.		<u>355,167</u>
Net assets of governmental activities		<u><u>\$ 5,564,097</u></u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Property taxes	\$ 338,231	\$ -	\$ 338,231
Sales taxes	424,313	-	424,313
Fees-in-lieu of taxes	60,974	-	60,974
Licenses and permits	228,867	-	228,867
Intergovernmental	169,071	-	169,071
Charges for services	277,461	-	277,461
Fines and forfeitures	73,500	-	73,500
Miscellaneous revenue	27,429	257,028	284,457
Total revenues	<u>1,599,846</u>	<u>257,028</u>	<u>1,856,874</u>
EXPENDITURES			
Current:			
General government	581,639	-	581,639
Public safety	286,769	-	286,769
Highways and public improvements	286,971	-	286,971
Parks and recreation	120,794	-	120,794
Capital outlay:			
Capital projects	-	107,470	107,470
Total expenditures	<u>1,276,173</u>	<u>107,470</u>	<u>1,383,643</u>
Excess (deficiency) of revenues over expenditures	<u>323,673</u>	<u>149,558</u>	<u>473,231</u>
Other financing sources (uses)			
Transfers in	-	452,367	452,367
Transfers out	(39,000)	-	(39,000)
Total other financing sources and uses	<u>(39,000)</u>	<u>452,367</u>	<u>413,367</u>
Net change in fund balances	284,673	601,925	886,598
Fund balances - beginning of year	<u>335,456</u>	<u>30,408</u>	<u>365,864</u>
Fund balances - end of year	<u>\$ 620,129</u>	<u>\$ 632,333</u>	<u>\$ 1,252,462</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the Statement of
Activities are different because:

Net changes in fund balances - total governmental funds		\$	886,598
Governmental funds report capital outlays as expenditures.			
However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.			
Park improvements	\$	107,472	
Depreciation expense		(47,092)	60,380
Donations of capital assets increase Net Assets in the Statement of Activities, but do not appear in the funds because they are not financial resources.			
Infrastructure		1,757,645	
Depreciation expense		(17,576)	1,740,069
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in funds.			
Property taxes assessed in January are considered earned revenue for the government-wide financial statements, while governmental funds do not consider it as revenue until available to provide current resources.			
2006 property tax assessment		355,167	
2005 property tax assessment		(306,015)	49,152
Internal service funds are used by management to charge the costs of the vehicle and equipment fund to individual funds. The net revenue of certain activities of the Internal Service Fund is reported with governmental activities.			9,882
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.			(6,727)
Some governmental fund expenditures reflect payments related to prior periods and are not reported as expenditures in the government-wide Statement of Activities.			3,227
Change in net assets of governmental activities		\$	<u>2,742,581</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-Type Activities - Enterprise Funds					Governmental-Type Activities Internal Service Fund
	Water	Sewer	Solid Waste	Storm Water	Total	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 338,195	\$ 27,069	\$ 61,544	\$ 165,105	\$ 591,913	\$ 286,575
Accounts receivable	39,745	35,104	28,661	120,514	224,024	-
Special assessments receivable	139,154	-	-	-	139,154	-
Prepaid water	37,828	-	-	-	37,828	-
Total current assets	554,922	62,173	90,205	285,619	992,919	286,575
Noncurrent assets:						
Restricted cash and cash equivalents	371,416	-	-	-	371,416	-
Fixed assets	4,772,075	20,396	-	1,337,145	6,129,616	501,051
Less: Accumulated depreciation	(835,364)	(8,787)	-	(25,554)	(869,705)	(358,503)
Total noncurrent assets	4,308,127	11,609	-	1,311,591	5,631,327	142,548
Total assets	4,863,049	73,782	90,205	1,597,210	6,624,246	429,123
LIABILITIES						
Current liabilities:						
Accounts payable	134,602	23,625	20,392	240,800	419,419	92
Retainage payable	15,200	-	-	15,200	30,400	-
Revenue bonds payable	15,000	-	-	-	15,000	-
Sewer impact fees	-	6,778	-	-	6,778	-
Deposits	1,500	4,000	-	112,754	118,254	-
Total current liabilities	166,302	34,403	20,392	368,754	589,851	92
Noncurrent liabilities:						
Revenue bonds payable	270,000	-	-	-	270,000	-
Total liabilities	436,302	34,403	20,392	368,754	859,851	92
NET ASSETS						
Invested in capital assets, net of related debt	3,651,711	11,609	-	1,311,591	4,974,911	142,548
Restricted - Special assessment	267,652	-	-	-	267,652	-
Restricted - Impact fees	103,764	-	-	-	103,764	-
Unrestricted	403,620	27,770	69,813	(83,135)	418,068	286,483
Total net assets	\$ 4,426,747	\$ 39,379	\$ 69,813	\$ 1,228,456	5,764,395	\$ 429,031
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds					20,004	
Net assets of business-type activities					\$ 5,784,399	

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-Type Activities - Enterprise Funds					Governmental-Type Activities Internal Service Fund
	Water	Sewer	Solid Waste	Storm Water	Total	
<u>OPERATING REVENUE</u>						
Charges for service	\$ 372,545	\$ 383,121	\$ 263,012	\$ 82,966	\$ 1,101,644	\$ 95,200
Connection fees	5,015	21,500	-	-	26,515	-
Impact fees	108,501	-	-	63,730	172,231	-
Other	16,953	5,176	-	-	22,129	-
Total operating revenue	503,014	409,797	263,012	146,696	1,322,519	95,200
<u>OPERATING EXPENSES</u>						
Operation and maintenance	43,234	3,796	2,798	36,023	85,851	47,563
Sewage treatment	-	236,019	-	-	236,019	-
Source of supply	75,266	-	-	-	75,266	-
Power and pumping	11,659	-	-	-	11,659	-
Depreciation	90,015	21,053	-	14,998	126,066	38,322
General expense	34,681	34,681	34,681	34,681	138,724	-
Salaries	74,658	-	-	21,858	96,516	-
Employee benefits	38,144	-	-	11,240	49,384	-
Waste collection	-	-	85,591	-	85,591	-
Waste disposal	-	-	163,920	-	163,920	-
Vehicle operation	31,416	6,664	-	6,664	44,744	-
Total operating expenses	399,073	302,213	286,990	125,464	1,113,740	85,885
Operating income (loss)	103,941	107,584	(23,978)	21,232	208,779	9,315
<u>NONOPERATING REVENUE (EXPENSES)</u>						
Loss on disposition of capital assets	-	(1,529,051)	-	-	(1,529,051)	-
Interest revenue	36,654	14,353	3,688	11,983	66,678	9,330
Interest expense	(16,686)	-	-	-	(16,686)	-
Total non operating revenue and expenses	19,968	(1,514,698)	3,688	11,983	(1,479,059)	9,330
Income (loss) before contributions and transfers	123,909	(1,407,114)	(20,290)	33,215	(1,270,280)	18,645
Capital contributions	417,467	-	-	446,734	864,201	-
Transfers out	-	(413,367)	-	-	(413,367)	-
Changes in net assets	541,376	(1,820,481)	(20,290)	479,949	(819,446)	18,645
Net assets - beginning	3,885,371	1,859,860	90,103	748,507		410,386
Net assets - ending	<u>\$ 4,426,747</u>	<u>\$ 39,379</u>	<u>\$ 69,813</u>	<u>\$ 1,228,456</u>		<u>\$ 429,031</u>

Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds

8,763

Change in net assets of business-type activities

\$ (810,683)

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water	Sewer	Solid Waste	Storm Water	Total	Business-Type Activities Internal Service Fund
Cash Flows From Operating Activities						
Receipts from customers	\$ 415,089	\$ 402,845	\$ 263,553	\$ 171,848	\$ 1,253,335	\$ -
Payments to employees	(74,658)	-	-	(21,858)	(96,516)	-
Payments to suppliers	(168,108)	(240,508)	(252,172)	(44,844)	(705,632)	(47,471)
Payments for interfund services used	(66,097)	(41,345)	(34,681)	(41,345)	(183,468)	95,200
Receipts for impact fees	108,501	-	-	63,730	172,231	-
Receipts for connection fees	5,015	21,500	-	-	26,515	-
Net cash provided (used) by operating activities	219,742	142,492	(23,300)	127,531	466,465	47,729
Cash Flows From Noncapital Financing Activities						
Transfers to other funds	-	(413,367)	-	-	(413,367)	-
Net cash provided (used) by noncapital financing activities	-	(413,367)	-	-	(413,367)	-
Cash Flows From Capital and Related Financing Activities						
Contributed revenues	-	-	-	30,000	30,000	-
Principal paid on capital debt	(33,433)	-	-	-	(33,433)	-
Interest paid on capital debt	(16,686)	-	-	-	(16,686)	-
Purchases of capital assets	(52,561)	-	-	(237,345)	(289,906)	-
Net cash provided (used) by capital and related financing activities	(102,680)	-	-	(207,345)	(310,025)	-
Cash Flows From Investing Activities						
Interest and dividends received	36,654	14,354	3,688	11,983	66,679	9,330
Net cash provided (used) by investing activities	36,654	14,354	3,688	11,983	66,679	9,330
Net increase (decrease) in cash and cash equivalents	153,716	(256,521)	(19,612)	(67,831)	(190,248)	57,059
Cash and cash equivalents, July 1	555,895	283,590	81,156	232,936	1,153,577	229,516
Cash and cash equivalents, June 30	<u>\$ 709,611</u>	<u>\$ 27,069</u>	<u>\$ 61,544</u>	<u>\$ 165,105</u>	<u>\$ 963,329</u>	<u>\$ 286,575</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water	Sewer	Solid Waste	Storm Water	Total	Business-Type Activities Internal Service Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	\$ 103,941	\$ 107,584	\$ (23,978)	\$ 21,232	\$ 208,779	\$ 9,315
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	90,015	21,053	-	14,998	126,066	38,322
(Increase) decrease in prepaid expense	(2,541)	-	-	-	(2,541)	-
(Increase) decrease in accounts receivable	25,491	7,770	541	1,011	34,813	-
Increase (decrease) in accounts payable	2,736	6,085	137	2,419	11,377	92
Increase (decrease) in deposits	100	-	-	87,871	87,971	-
Total adjustments	115,801	34,908	678	106,299	257,686	38,414
Net cash provided (used) by operating activities	\$ 219,742	\$ 142,492	\$ (23,300)	\$ 127,531	\$ 466,465	\$ 47,729
Noncash Investing, Capital and Financing Activities:						
Contributed capital assets from developers	\$ 417,467	\$ -	\$ -	\$ 416,734	\$ 834,201	\$ -

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Fruit Heights City, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The City has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

Fruit Heights City was incorporated in the State of Utah. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: Public safety, public utilities, highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the following:

1. The primary government
2. Organizations for which the primary government is financially accountable
3. Other organizations that, because of the nature and significance of their relationship with the primary government, exclusion from the reporting entity would render the financial statements misleading or incomplete.

Blended component units, although legally separate entities, are in substance part of the government's operations. They are reported as part of the primary government and blended with the appropriate funds. The City has the following component units.

Fruit Heights City Municipal Building Authority. The Fruit Heights City Municipal Building Authority's governing board is appointed by the government's governing body. The City created a building authority in the form of a non-profit corporation under the Utah Municipal Building Authority Act for the purpose of acquiring, improving, or extending one or more projects, as defined in the Act, and to finance their costs on behalf of the City in accordance with the procedures and subject to limitations of the Act. There was no activity in the current year.

B. Government-wide and Fund Financial Statements

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

Government-wide Financial Statements

The government-wide statements present information on all non-fiduciary activities of the primary government. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Statements are provided for *governmental funds* and for *proprietary funds*. For governmental and proprietary funds, the emphasis is on *major funds*, with each displayed in a separate column.

The City reports the following major governmental funds:

General Fund - This fund is the principal operating fund of the City. It is used to account for all financial resources not required to be accounted for in another fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the construction of major capital projects.

The City reports the following major proprietary funds:

Sewer Fund - The sewer fund is used to account for operations of the sewer system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

Water Fund - The water fund is used to account for operations of the water system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Solid Waste Fund - The solid waste fund is used to account for operations of the solid waste system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Storm Water Fund - The storm water fund is used to account for operations of the storm water system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Additionally, the City reports the following fund type:

Internal Service Fund - The internal service fund is used to account for the operating costs of vehicles and equipment charged to the other departments or funds. The internal service fund primarily benefits the governmental funds and is included as part of governmental-type activities in the government-wide financial statements. The net profit or loss on the internal service fund operations is allocated to the functions that benefited from the goods or services provided on the basis of their proportionate benefit. This technique is commonly known as the look-back approach to internal service fund consolidations on the government-wide financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The governmental fund financial statements are prepared and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are generally recorded when the related liability is incurred.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the City does not apply FASB pronouncements issued after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Assets, Liabilities, and Fund Balances/Net Assets

The following are the City's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

Pooled Cash and Temporary Investments

Unrestricted and restricted cash balances of both funds are combined to form a pool of cash which is managed by the City Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The City Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories

No significant inventories are maintained by the City, therefore none are reflected in these statements.

Restricted Assets

Certain resources set aside as reserves in accordance with council resolutions and State statutes are classified as restricted assets on the balance sheet because their use is limited.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)

Capital Assets

General capital assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures.

Capital assets are reported in the governmental column in the government-wide financial statements. All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years	Equipment	5-10 years
Improvements	10-50 years	Infrastructure	25-40 years

Long-term Obligations

In the government-wide statements, long-term debt obligations are reported as liabilities.

The face amount of debt issued is reported as other financing sources in the governmental fund financial statements.

Net Assets/Fund Balances

The difference between assets and liabilities is *net assets* on the government-wide statements, and *fund balance* on the governmental fund statements.

In the governmental fund statements, fund balances are classified as reserved or unreserved. Reserves represent those portions of fund balance that are not available for expenditures or are legally segregated for a specific future use. Unreserved fund balances are available for future appropriation, though some portions may be designated to represent management's tentative plans for specific future uses.

E. Revenues and Expenditures

The following are the City's significant policies related to recognition and reporting of certain revenues, expenditures, and interfund activity.

Revenue Availability

Under the modified accrual basis of accounting, revenues are considered to be "available" when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days after the end of the current year. Grants and similar items are recognized as revenue when all eligibility requirements have been met. All other revenues, including sales taxes, are considered to be available if they are collected within 60 days after year-end.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues and Expenditures (Continued)

Statement of Governmental Accounting Standards (SGAS) No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2006.

Expenditure Recognition

In governmental funds, expenditures are generally recorded when the related liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures, and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City generally uses restricted resources first, then unrestricted resources.

F. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for both the General Fund and Capital Projects Fund. All annual appropriations lapse at the fiscal year end. Encumbrance accounting is not used by the City.

Summary of City Budget Procedures and Calendar

1. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance.
2. Budgets are required by the State of Utah for both the General and Capital Project Funds.
3. Each year the City publishes a separate budget document prepared according to this legal level of control.
4. The City's budget is a Financial Plan of all estimated revenues and all appropriations for expenditures. Revenues and Expenditures must balance for the funds required by the State Code as indicated in item 2 above.
5. A tentative budget is presented by the Mayor to the City Council by the first regularly scheduled council meeting in May. The tentative budget is reviewed and tentatively adopted by the Council no later than June 22.
6. The tentative budget is a public record and is available for inspection at the City offices for at least ten days prior to adoption of the final budget.
7. Notice of public hearing on adoption of the final budget is published seven days prior to the public hearing.
8. The public hearing on the tentatively adopted budget is held no later than June 22. Final adjustments are made to the tentative budget by the Council after the public hearing.
9. Occasionally the City Council will exercise their option to open the budget to indicate additional financing sources that become available.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

Summary of City Budget Procedures and Calendar (Continued)

10. The final budget is adopted by ordinance before June 22 and a copy of the budget certified by the Budget Officer is filed with the State Auditor within thirty days of adoption.

11. In connection with budget adoption:

- a. An annual tax ordinance establishing the property tax rate is adopted before June 22.
- b. The City Treasurer is to certify the property tax rate to the County Auditor before June 22.

12. Budgets for the General and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Summary of Action Required for Budget Changes:

The Council may, by resolution, transfer unexpended appropriations from one department to another department within the same fund. The budget appropriation for any department may be reduced by resolution.

Fund budgets may be increased by resolution after a public hearing.

G. Contributions

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

H. Compensated Absences

City policy provides for vested or accumulated vacation leave. All compensated absences are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Restricted Resources

The City's policy is to use restricted resources first to fund appropriations when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The City's deposits are carried at cost.

At June 30, 2006, the carrying amount of the City's deposits was \$56,477 and the bank balance was \$131,728. Of the bank balance, \$100,000 was covered by federal depository insurance.

B. Investments

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$ 2,486,558	\$ 2,485,762

C. Summary

	Carrying Amount
Deposits	\$ 56,477
Investment in Utah Public Treasurer's Investment Fund	2,486,558
Total deposits and investments	<u>\$ 2,543,035</u>
Equity in pooled cash and investments	\$ 1,915,869
Restricted cash - special assessment	267,652
Restricted cash - water fund	103,764
Restricted cash - capital projects	42,375
Restricted cash - general fund	157,633
Restricted cash - subdivider guarantee deposits	55,742
Total deposits and investments	<u>\$ 2,543,035</u>

Deposit and Investment Risk Disclosure. Deposits and investments for Fruit Heights City are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the City's exposure to various risks related to its cash management activities.

Custodial credit risk - deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of City funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commission of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The City's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The City's deposits at June 30, 2006 were \$131,728, of which \$100,000 was insured under federal depository insurance.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's policy for limiting credit risk for investments is to comply with the Money Management Act. The City is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized basis. The income, gains and losses, net of administrative fees, of the PTIF are allocated based upon the participant's average daily balance. The PTIF pool has not been rated.

Credit risk. Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of credit risk. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	(Deletions)	Balance June 30, 2006
<u>PRIMARY GOVERNMENT</u>				
GOVERNMENTAL ACTIVITIES				
Nondepreciated Assets				
Land	\$ 862,225	\$ -	\$ (6,727)	\$ 855,498
Water rights	988	-	-	988
Total nondepreciated assets	<u>863,213</u>	<u>-</u>	<u>(6,727)</u>	<u>856,486</u>
Depreciated Assets				
Infrastructure	-	1,757,645	-	1,757,645
Vehicles	501,050	-	-	501,050
Improvements-nonbuilding	328,377	107,471	-	435,848
Machinery and equipment	87,273	-	-	87,273
Buildings	884,267	-	-	884,267
Total depreciated assets	<u>1,800,967</u>	<u>1,865,116</u>	<u>-</u>	<u>3,666,083</u>
Less accumulated depreciation				
Infrastructure	-	(17,576)	-	(17,576)
Vehicles	(320,180)	(38,322)	-	(358,502)
Buildings	(220,541)	(22,404)	-	(242,945)
Machinery and equipment	(35,649)	(6,463)	-	(42,112)
Improvements	(92,330)	(18,226)	-	(110,556)
Total	<u>(668,700)</u>	<u>(102,991)</u>	<u>-</u>	<u>(771,691)</u>
Net assets depreciated	1,132,267	1,762,125	-	2,894,392
Governmental activities capital assets, net	<u>\$ 1,995,480</u>	<u>\$ 1,762,125</u>	<u>\$ (6,727)</u>	<u>\$ 3,750,878</u>
BUSINESS-TYPE ACTIVITIES				
Nondepreciated Assets				
Land	\$ 98,783	\$ -	\$ -	\$ 98,783
Water rights	16,115	-	-	16,115
Work in progress	-	480,806	-	480,806
Total nondepreciated assets	<u>114,898</u>	<u>480,806</u>	<u>-</u>	<u>595,704</u>
Depreciated Assets				
Improvements-nonbuilding				
Infrastructure	-	834,201	-	834,201
Water system	3,669,422	97,685	-	3,767,107
Sewer system	1,847,298	-	(1,847,298)	-
Irrigation water system	297,068	-	-	297,068
Storm water system	541,547	-	-	541,547
Equipment				
Water system	73,593	-	-	73,593
Sewer system	20,396	-	-	20,396
Total depreciated assets	<u>6,449,324</u>	<u>931,886</u>	<u>(1,847,298)</u>	<u>5,533,912</u>

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 3 - CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2005	Additions	(Deletions)	Balance June 30, 2006
BUSINESS-TYPE ACTIVITIES (CONTINUED)				
Less accumulated depreciation				
Improvements-nonbuilding				
Infrastructure	\$ -	\$ (4,175)	\$ -	\$ (4,175)
Water system	(693,080)	(74,365)	-	(767,445)
Sewer system	(299,774)	(18,473)	318,247	-
Irrigation water system	(3,961)	(5,941)	-	(9,902)
Storm water system	(10,555)	(14,998)	-	(25,553)
Equipment				
Water system	(48,306)	(5,534)	-	(53,840)
Sewer system	(6,208)	(2,580)	-	(8,788)
Total	(1,061,884)	(126,066)	318,247	(869,703)
Net assets depreciated	5,387,440	805,820	(1,529,051)	4,664,209
Business-type activities capital assets, net	\$ 5,502,338	\$ 1,286,626	\$ (1,529,051)	\$ 5,259,913

DEPRECIATION EXPENSE

	Governmental Types	Business Types	Totals
General government	\$ 46,443	\$ -	\$ 46,443
Parks	18,226	-	18,226
Internal service	38,322	-	38,322
Sewer	-	21,053	21,053
Water	-	90,015	90,015
Storm water	-	14,998	14,998
TOTAL	\$ 102,991	\$ 126,066	\$ 229,057

NOTE 4 - LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2006, was as follows:

Description	Interest Rate	Outstanding 6/30/05	Additions	Payments	Outstanding 6/30/06	Current Portion
BUSINESS TYPE						
Water utility fund:						
Promissory note -						
Land purchase	8.5%	\$ 18,433	\$ -	\$ 18,433	\$ -	\$ -
Revenue obligation	5.0%	300,000	-	15,000	285,000	15,000
Total water utility		\$ 318,433	\$ -	\$ 33,433	\$ 285,000	\$ 15,000

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Promissory Note - Municipal Revenue Obligation

On June 15, 2004, the City entered into a loan agreement evidenced by a promissory note in the amount of \$300,000 with interest at the annual rate of 5% simple interest. The proceeds are to be used to fund the Fruit Heights City East Bench Pressure Irrigation Special Improvement district which is the vehicle to construct a pressure irrigation delivery system for some residents in Fruit Heights who will repay their individual assessments for participation in the irrigation system. It is the intent that this obligation is to be a Municipal Revenue Obligation of the specific group of participants/residents of the City and not a General Obligation of the City. The terms are as follows:

Principal balance shall be repaid as it is received by Fruit Heights City in no more than twenty (20) annual payments of \$15,000 beginning October 31, 2005. The note can be prepaid at any time without prepayment penalty. Interest shall be calculated on the outstanding principal balance quarterly and paid annually on July 31 of each year beginning July 31, 2005. Interest shall commence to accrue as of June 15, 2004.

The special assessment was made to residents. The City will collect the payments from the residents and then make the required payments on the promissory note.

Annual requirements to amortize long-term debt as of June 30, 2006 - Revenue Obligation Promissory Note:

June 30,	Revenue Obligation		Interest	Total
	Principal			
2007	\$ 15,000	\$	11,049	\$ 26,049
2008	15,000		13,753	28,753
2009	15,000		13,003	28,003
2010	15,000		12,253	27,253
2011	15,000		11,503	26,503
2012	15,000		10,752	25,752
2013	15,000		10,002	25,002
2014	15,000		9,253	24,253
2015	15,000		8,502	23,502
2016	15,000		7,753	22,753
2017	15,000		7,002	22,002
2018	15,000		6,253	21,253
2019	15,000		5,502	20,502
2020	15,000		4,753	19,753
2021	15,000		4,002	19,002
2022	15,000		3,253	18,253
2023	15,000		2,502	17,502
2024	15,000		1,753	16,753
2025	15,000		1,002	16,002
	<u>\$ 285,000</u>	<u>\$</u>	<u>143,845</u>	<u>\$ 428,845</u>

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 5 - LOCAL GOVERNMENT - COST SHARING

Plan Description. Fruit Heights City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System for employers with Social Security coverage, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated, 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, Fruit Heights City is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Fruit Heights City contributes to the Local Governmental Noncontributory Retirement System. The contributions for June 30, 2006, 2005, and 2004, were \$39,616, \$42,133, and \$35,757, respectively. The contributions were equal to the required contributions for each year.

Fruit Heights City also participates in a defined contribution 401K plan for employees. The contributions were as follows:

	<u>Employee</u>	<u>Employer</u>
2006	\$ 25,562	\$ 18,806
2005	\$ 23,437	\$ 19,680
2004	\$ 24,725	\$ 24,718

NOTE 6 - POST-EMPLOYMENT BENEFITS

The only post-employment benefit offered by the City is health insurance for eighteen (18) months following termination. Employees covered and eligible are all employees who were covered by the insurance during employment. The participant is required to pay 100% of the premiums. The City is not required to contribute and therefore incurs no expense.

NOTE 7 - RISK MANAGEMENT

Fruit Heights City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of June 30, 2006, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 8 - DEFERRED REVENUE

Deferred revenues are resource inflows that do not yet meet the criteria for revenue recognition. The City follows GASB Statement No.33 which reports property taxes currently receivable to be used in the following fiscal year as deferred revenue.

NOTE 9 - AMOUNT TO BE PROVIDED FOR COMPENSATED ABSENCES

This amount represents the accumulated unpaid vacation and compensatory time which would be paid if employees terminated employment June 30, 2006, and 2005, \$60,890 and \$64,117 respectively.

NOTE 10 - INTER-FUND TRANSFERS

During the year ended June 30, 2006, budgeted interfund operating transfers were as follows:

Transfer from General Fund	\$ 39,000
Transfer to Capital Projects	(39,000)
Transfer from Sewer Fund	413,367
Transfer to Capital Projects	(413,367)
	<u>\$ -</u>

NOTE 11 - INTERFUND CHARGES FOR SERVICES

During the year ended June 30, 2006, the interfund charges for services were as follows:

Internal Service Fund - vehicle and equipment operating costs charged to:

Water fund	\$ 31,416
Sewer fund	6,664
Storm water fund	6,664
General fund	50,456
	<u>\$ 95,200</u>

General Fund charges for services administrative cost share charged to:

Water fund	\$ 32,881
Sewer fund	32,881
Solid waste fund	32,881
Storm water fund	32,881
	<u>\$ 131,524</u>

General fund building costs share charged to:

Water fund	\$ 1,800
Sewer fund	1,800
Solid waste fund	1,800
Storm water fund	1,800
	<u>\$ 7,200</u>

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 12 - INTEREST EXPENSE

The proprietary funds incurred \$16,686 in interest expense of which \$16,686 was charged to expense and \$-0- was capitalized.

NOTE 13 - RESERVATIONS OF FUND BALANCE/RETAINED EARNINGS

Reserved for Park Impact Fees - This represents park impact fees collected and restricted for park improvements.

Reserved for Water and Storm Water Impact Fees - This represents impact fees collected and restricted for water and storm water improvements.

Reserved for Class "C" Road - This represents the excess of Class "C" Road funds received over the amount spent.

Reserved for Capital Projects - The City is setting aside funds in a reserve for major capital improvements.

Reserved for Emergency Preparedness - This represents required reserve for unexpended amounts from state grants.

Reserved for Special Assessment - This represents amounts assessed to residents for pressurized irrigation system, collected and held for repayment of loan.

NOTE 14 - PROPERTY TAX CALENDAR

Lien date	Jan. 1
Taxing entity notifies the county of date, time, and place of public hearing	Mar. 1
Budget officer of the entity prepares and files with the City Council a tentative budget for the next fiscal year	1st scheduled council meeting in May
County auditor sends valuation certified tax rate and levy worksheets to each taxing entity	Jun. 8
Taxing entity must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor	Before Jun. 22
Taxing entity adopts a final tax rate if there is no increase in certified tax rate	Jun. 22
Taxing entity adopts final budget if there is no increase in certified tax rate	Jun. 22
Copy of the budget is submitted to state auditor within 30 days of adoption	
Payment and delinquency date	Nov. 30

NOTE 15 - TRANSFER OF SEWER LINES

Effective January 1, 2006, the City transferred all sewer lines to Central Davis Sewer District at book value:

Original cost	\$ 1,847,298
Less accumulated depreciation	<u>(318,247)</u>
Loss on disposition of lines	<u>\$ 1,529,051</u>

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 16 - EXPLANATION OF CERTAIN DIFFERENCES

The proprietary fund Statement of Net Assets includes a reconciliation between *net assets - total enterprise funds* and *net assets of business-type activities* as reported in the government-wide Statement of Net Assets. The description of the sole element of that reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The details of this \$20,004 difference are as follows:

Internal receivable representing charges in excess of cost to business type activities - prior years	\$ 11,241
Internal receivable representing charges in excess of cost to business type activities - current year	<u>8,763</u>
Net adjustment to increase <i>net assets - total enterprise funds</i> to arrive at <i>net assets - business-type activities</i>	<u><u>\$ 20,004</u></u>

**FRUIT HEIGHTS CITY
REQUIRED SUPPLEMENTAL
INFORMATION**

JUNE 30, 2006

FRUIT HEIGHTS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES TO FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes:				
Property taxes	\$ 306,015	\$ 306,015	\$ 317,856	\$ 11,841
Fees-in-lieu taxes	60,000	60,000	60,974	974
Redemptions	9,000	9,000	20,375	11,375
Sales tax	350,000	350,000	424,313	74,313
Total taxes	725,015	725,015	823,518	98,503
Licenses and permits:				
Business licenses and permits	4,000	4,000	3,925	(75)
Building permits	171,410	171,410	192,302	20,892
Franchise tax	30,000	30,000	32,640	2,640
Total licenses and permits	205,410	205,410	228,867	23,457
Intergovernmental:				
Class "C" roads	140,000	140,000	151,914	11,914
State liquor allotment	2,000	2,000	2,776	776
State grants	2,500	12,500	14,381	1,881
Total intergovernmental	144,500	154,500	169,071	14,571
Charges for services:				
Public property rent	300	300	526	226
Subdivision and engineering fees	30,000	30,000	52,634	22,634
Inspection fees	25,000	25,000	72,824	47,824
Building rent	-	7,200	7,200	-
Administrative services	138,724	131,524	131,524	-
Park fees	1,000	1,000	3,687	2,687
Youth recreation	22,200	22,200	9,066	(13,134)
Total charges for services	217,224	217,224	277,461	60,237
Fines and forfeitures	66,000	66,000	73,500	7,500
Other revenues:				
Sale of assets	-	-	45	45
Interest earnings	3,000	3,000	18,281	15,281
Miscellaneous	600	600	9,103	8,503
Total other revenues	3,600	3,600	27,429	23,829
Total revenues	1,361,749	1,371,749	1,599,846	228,097

FRUIT HEIGHTS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures</u>				
Current:				
General government:				
Mayor and council	\$ 32,600	\$ 32,600	\$ 32,811	\$ (211)
Judicial	63,800	63,800	59,156	4,644
Executive	99,500	99,500	90,200	9,300
City Treasurer	76,500	76,500	61,080	15,420
City Recorder	32,200	44,200	33,928	10,272
Audit	7,000	7,000	8,600	(1,600)
Attorney	25,000	25,000	33,425	(8,425)
City Hall operations	14,400	14,400	11,611	2,789
Non-departmental	158,800	158,800	129,873	28,927
Elections	4,000	4,000	2,987	1,013
Vehicle operations	50,456	50,456	50,456	-
Planning and zoning	43,500	43,500	55,366	(11,866)
Emergency preparedness	3,500	13,500	12,146	1,354
Total general government	<u>611,256</u>	<u>633,256</u>	<u>581,639</u>	<u>51,617</u>
Public safety:				
Law enforcement	119,500	119,500	111,798	7,702
Fire protection	100,336	100,336	100,336	-
Protective inspection	117,000	117,000	74,635	42,365
Total public safety	<u>336,836</u>	<u>336,836</u>	<u>286,769</u>	<u>50,067</u>
Roadways:				
Roads	122,400	122,400	125,693	(3,293)
Class "C" Roads	274,000	274,000	161,278	112,722
Total roadways	<u>396,400</u>	<u>396,400</u>	<u>286,971</u>	<u>109,429</u>

FRUIT HEIGHTS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures - Continued</u>				
Parks and recreation:				
Parks	\$ 110,200	\$ 110,200	\$ 92,856	\$ 17,344
Recreation	58,600	58,600	27,938	30,662
Total parks and recreation	168,800	168,800	120,794	48,006
Total expenditures	1,513,292	1,535,292	1,276,173	259,119
Excess (deficiency) of revenues over expenditures	(151,543)	(163,543)	323,673	487,216
Other financing sources (uses):				
Operating transfers (out)	(39,000)	(39,000)	(39,000)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(190,543)	(202,543)	284,673	487,216
Fund balance - beginning of year	335,456	335,456	335,456	-
Fund balance - end of year	<u>\$ 144,913</u>	<u>\$ 132,913</u>	<u>\$ 620,129</u>	<u>\$ 487,216</u>

**FRUIT HEIGHTS CITY
OTHER SUPPLEMENTARY
INFORMATION**

JUNE 30, 2006

FRUIT HEIGHTS CITY
SCHEDULE OF IMPACT FEES
JUNE 30, 2006

	<u>Park Impact Fees</u>	<u>Water Impact Fees</u>
Year Impact Fees Received:		
June 30, 2004	\$ 3,461	\$ -
June 30, 2005	14,438	-
June 30, 2006	<u>24,476</u>	<u>103,764</u>
Reserves June 30, 2006	<u><u>\$42,375</u></u>	<u><u>\$103,764</u></u>
Capital projects planned:	Nichols Park Improvements	East Oaks and Green Road Projects
Projected schedule for expenditure:	2006-07 2007-08	2006-07

**FRUIT HEIGHTS CITY
AUDITOR'S REPORTS AND
AUDITOR'S MANAGEMENT LETTER**

JUNE 30, 2006

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

To the Honorable Mayor and City Council
Fruit Heights City
Fruit Heights, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fruit Heights City, Utah, for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. As part of our audit, we have audited Fruit Heights City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

"C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements.)

State and Local Assistance (SLA) Program
Utah Citizens Corps Grant

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
"B" & "C" Road Funds
Other Compliance Issues

Truth in Taxation and Property Tax Limitations
Liquor Law Enforcement
Uniform Building Code Standards
Impact Fees

The management of Fruit Heights City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE
PAGE 2

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming an opinion on compliance, which is expressed in the following paragraph.

In our opinion, Fruit Heights City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Davis, Chase & Associates

December 15, 2006

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS
Tarina Chase, CPA
Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and City Council
Fruit Heights City
Fruit Heights, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fruit Heights City, Utah, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fruit Heights City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Fruit Heights City, Utah, in a separate letter dated December 15, 2006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fruit Heights City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to the management of Fruit Heights City, Utah, in a separate letter dated December 15, 2006.

This report is intended for the information of the audit committee, legislative body, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Davis, Chase & Associates

December 15, 2006

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

To the Honorable Mayor and City Council
Fruit Heights City
Fruit Heights City, Utah

We have recently completed our audit examination for the year ended June 30, 2006. During the course of our audit, we observed a few items we feel require your consideration. They are as follows:

1. **FUND BALANCE**

The unreserved fund balance in the General Fund is in excess of the limitations set by state law. Section 10-6-116(2) of the Utah Code Annotated, 1953, as amended sets forth the amount of the fund balance that may be accumulated in the General Fund as follows: The accumulation of a fund balance in the General Fund shall not exceed 18% of the total estimated revenue of the General Fund.

We recommend the excess over the maximum allowed be recognized in the budget of the current year or in the budget for the succeeding year.

Management Response

The City is aware of the excess and will either incorporate the excess in the budget when the budget is reopened and amended or in the following year.

2. **TREASURER'S BOND**

The City's current coverage does not provide for the City Treasurer in the proper amount as provided in the Utah Code Section 51-7-15. Every public treasurer shall be bonded in the amount provided in a table required by the Utah Code.

We recommend a fidelity bond on the City's treasurer be obtained in the proper amount.

Management Response

The City will increase the treasurer's bond to the proper amount based on budgeted gross revenue.

3. **COURT TRUST ACCOUNT - BAIL BOND ACTIVITY**

The City's bail bond activity was not being reconciled on a monthly basis with the general ledger account.

We recommend all bail bond activity be recorded on a monthly basis and reconciled with the general ledger account.

Management Response

The City will reconcile the bail bond account on a monthly basis.

4. **COST ALLOCATIONS TO FUNDS**

The cost of services charged to the Utility Funds by the General fund should be based on a reasonable allocation of costs.

We recommend that in view of the charges in the Sewer Fund operations, that the City review these cost allocations.

Management Response

The City will review these cost allocations for services provided.

5. **IMPACT FEE ACCOUNTING**

The City is not allocating and retaining interest earnings in the impact fee accounts when there are carryovers of impact fees.

We recommend the City allocate interest to the impact fee accounts when all funds are not spent and there are unused impact fee balances.

Management Response

The City will allocate and retain interest in the impact fee accounts.

We appreciate the cooperation and assistance we have received from City personnel during the audit.

Davis, Chase & Associates

December 15, 2006